

STATE OF NEW HAMPSHIRE  
DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Cover Photograph: Blue Star Turnpike (Interstate 95) at the Hampton mainline toll plaza

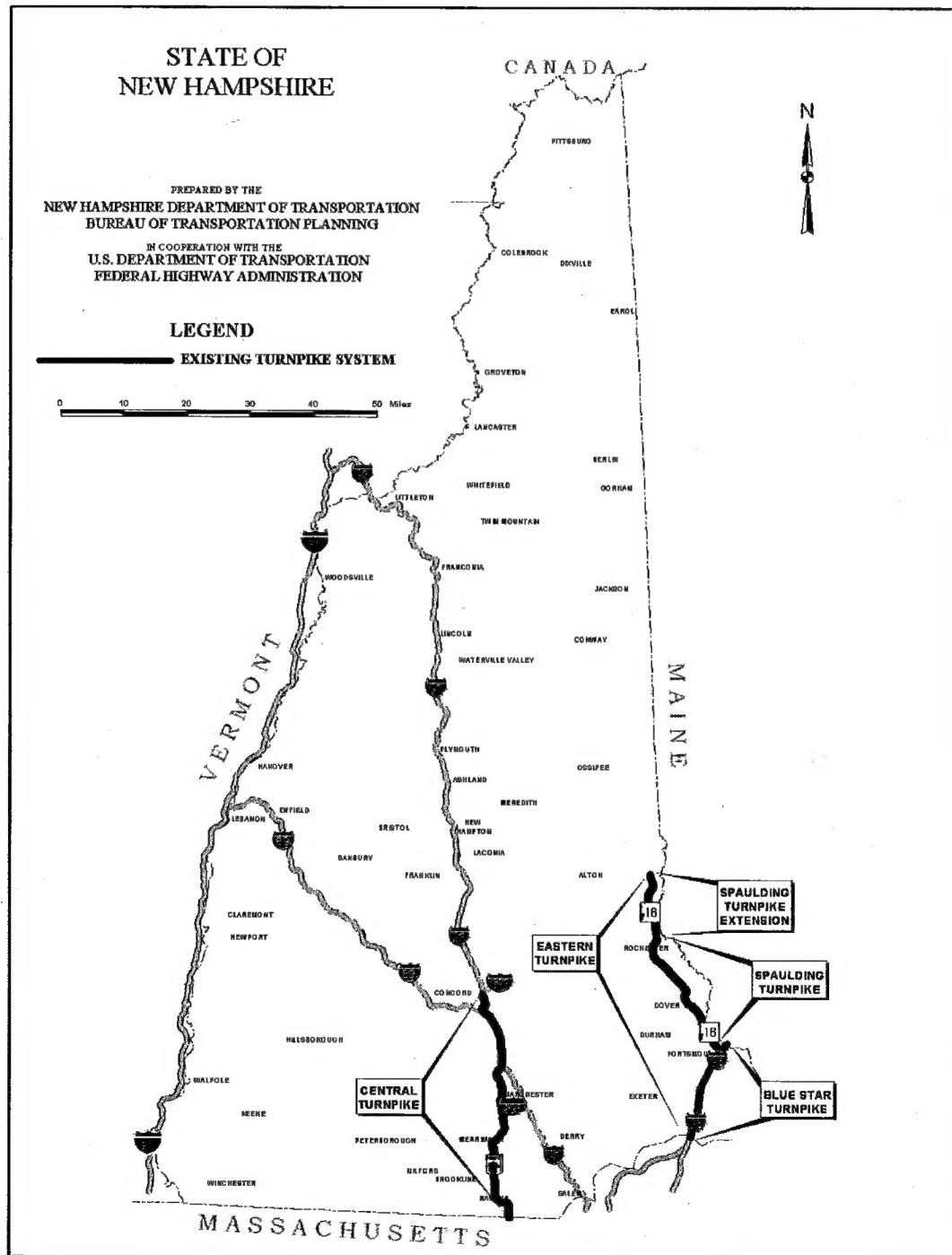
**New Hampshire Turnpike System  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2006**

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## INTRODUCTORY SECTION

This section includes a transmittal letter addressed to the citizens and the Governor of the State of New Hampshire, an overview of the Turnpike System, and an organizational listing of the principal officials.





**THE STATE OF NEW HAMPSHIRE**  
**DEPARTMENT OF TRANSPORTATION**



**CAROLA A. MURRAY, P.E.**  
*Commissioner*

**JEFF BRILLHART, P.E.**  
*Assistant Commissioner*

February 22, 2007

To: The Citizens of New Hampshire,  
His Excellency the Governor, and the Honorable Council,

We are pleased to submit the Comprehensive Annual Financial Report of the New Hampshire Department of Transportation Turnpike System as of and for the fiscal year ended June 30, 2006. The Department of Transportation, Bureau of Finance and Contracts, prepared this report. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results in operations, and cash flows of the Turnpike System. All disclosures necessary to enable the reader to gain an understanding of the Turnpike's financial activities have been included.

This report is divided into three sections: introductory, financial, and other information. The introductory section includes this transmittal letter and our organizational chart. The financial section contains the independent auditors' report, management's discussion and analysis (MD&A), and financial statements with accompanying notes. The other information section includes other relevant financial and operational information.

GASB Statement 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The Turnpike System is also included within the State's Comprehensive Annual Financial Report. However, the report that follows here presents all activities of the Turnpike as a single enterprise fund and does not include data or information related to any other state agency or fund.

This annual report may also be viewed on the State of New Hampshire - Department of Transportation website located at <http://webster.state.nh.us/dot/media/publications.htm>.

## **THE TURNPIKE SYSTEM**

### ***General Description***

The Turnpike System, as shown on the map on the Introductory Section cover page, presently consists of 93 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 631 total lane miles. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System consists of three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, which are collectively referred to as the Eastern Turnpike, and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire.

No food, gas or vehicle service facilities are located on the Turnpike System, with the exception of vending machines at the Hooksett and Seabrook rest areas. Motorist services are located near most interchanges on the Turnpike System and are privately operated. State operated liquor stores are located at two rest areas on the Central Turnpike (I-93) and at two sites along the Blue Star Turnpike (I-95). The Bureau of Turnpikes does not receive any revenue from the liquor store operations, which are operated by the State's Liquor Commission, or from the vending machines, which are operated by the State's Department of Administrative Services.

### ***The Eastern Turnpike***

#### **Blue Star Turnpike (I-95)**

The Blue Star Turnpike segment of the Turnpike System extends from the Massachusetts state line in Seabrook, New Hampshire to the Portsmouth Traffic Circle in Portsmouth, New Hampshire. It is 15.0 miles in length and constitutes a portion of U.S. Interstate Highway 95. The Blue Star Turnpike serves as the major connecting road between the states of Maine and Massachusetts. It also parallels the seacoast and, as such, is the major artery for tourist traffic to the New Hampshire coast from Massachusetts and Maine. The route also connects with several major highways in New Hampshire, including Route 101, Route 4 and the Spaulding Turnpike. Two toll plazas are located in Hampton, one for main line traffic and one for vehicles entering and leaving the Turnpike System.

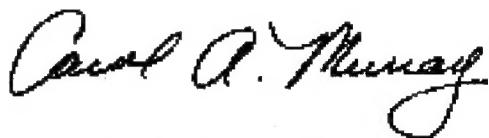
Hampton also has both a maintenance and a park and ride facility to encourage car-pooling. The Seabrook Welcome Center provides a rest area, vending machines, and parking for automobiles and commercial vehicles. This relatively new facility provides a larger building than the former Seabrook rest area, allowing for increased convenience of the Turnpike System patrons.

#### **Spaulding Turnpike**

The Spaulding Turnpike segment of the Turnpike System, including the 11.2-mile Spaulding Turnpike extension, extends from Portsmouth, New Hampshire to Exit 18 in Milton, New Hampshire. It is 33.2 miles in length and is the major north-south artery in the eastern corridor of the State. This segment of the Turnpike System connects the Blue Star Turnpike (I-95) to Route 16 (the major roadway to northern New Hampshire in the eastern portion of the State), and it connects the major cities of eastern New Hampshire (Portsmouth, Dover and Rochester) as well as intersects with several major highways (Routes 4, 16 and 125). It has two toll plazas located at Dover and at Rochester, with a maintenance facility for the Spaulding Turnpike located in Dover. Maintenance on the Spaulding Turnpike extension is provided by the Department of Transportation's Bureau of Highway Maintenance and billed to the Bureau of Turnpikes. In addition, for the convenience of the Turnpike System patrons, a rest area with rest rooms and picnic facilities is provided at Hilton Park in Dover.

### ***The Central Turnpike (F.E. Everett)***

The Central Turnpike, commonly known as the F.E. Everett Turnpike, extends from the Massachusetts state line in Nashua, New Hampshire to Exit 14 in Concord, New Hampshire. Its distance is 44.7 miles in length and constitutes a portion of U.S. Interstate Highways 93 and 293. The Central Turnpike connects three urban centers in New Hampshire (the cities of Concord, Manchester, and Nashua). The route also intersects with the major East-West roads in New Hampshire (Route 101, Route 4 and I-89). Six toll plazas are located on the Central Turnpike: two at Hooksett (main line and ramp), a main line plaza in Bedford, and ramp plazas at Bedford Road, Exit 11 and Merrimack Industrial Interchange, all in Merrimack. There are maintenance facilities at Nashua, Merrimack and Hooksett. Park and ride facilities are provided in Hooksett and Nashua. In addition, two rest areas for information and rest room facilities are provided in Hooksett for the convenience of Turnpike System patrons. The Central Turnpike also has a Welcome Center at Exit 6 in Nashua. The widening of the Central Turnpike in Nashua from the Massachusetts state line to the Exit 8 interchange was completed in 2002. This section of reconstructed highway includes a highway interconnect from the Exit 2 interchange in Nashua to Route 3A in Hudson.



Carol A. Murray, P.E.  
Commissioner

## **ORGANIZATIONAL LISTING**

### **STATE OF NEW HAMPSHIRE**

#### **Governor**

John H. Lynch

#### **Executive Council**

Raymond S. Burton  
Peter J. Spaulding  
Ruth L. Griffin  
Raymond J. Wieczorek  
Debora B. Pignatelli

#### **State Treasurer**

Michael A. Ablowich

#### **Secretary of State**

William M. Gardner

#### **Attorney General**

Kelly A. Ayotte

### **NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION**

#### **Commissioner**

Carol A. Murray, P.E.

#### **Assistant Commissioner**

David J. Brillhart, P.E.

#### **Director of Operations**

Lyle Knowlton, P.E.

#### **Director of Finance**

Thomas Martin, CPA.

#### **Turnpike System Administrator**

Harvey S. Goodwin, P.E.

#### **Turnpike System Assistant Administrator**

Jonathan K. Hanson

#### **Business Administrator**

Margaret S. Blacker

#### **Maintenance Superintendent**

Dix E. Bailey

#### **Project Manager**

Nassar Yari

#### **Toll Operations Manager**

Al Almasy

## **FINANCIAL SECTION**

This section includes the independent auditors' report, management's discussion and analysis, the financial statements as of and for the fiscal year ended June 30, 2006 and the accompanying notes to the financial statements.



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### **INDEPENDENT AUDITORS' REPORT**

To the Fiscal Committee of the General Court  
State of New Hampshire  
Concord, New Hampshire

We have audited the accompanying statement of net assets of the State of New Hampshire's Turnpike System as of June 30, 2006 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Turnpike System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Turnpike System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Turnpike System as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 9 through 12 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Turnpike System. The introductory and other information sections of this report are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



To the Fiscal Committee of the General Court  
State of New Hampshire

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2007, on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*KPMG LLP*

February 22, 2007

**New Hampshire Turnpike System  
Management's Discussion and Analysis**

*(Unaudited)*

This discussion and analysis of the Turnpike System's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of the introductory section and the Turnpike System financial statements, which follow in this section.

**Financial Highlights**

- ❖ Operating revenues for the Turnpike System increased approximately \$14.1 million or 21.2% in fiscal year 2006, primarily due to the implementation of the E-ZPass electronic toll collection system. The passenger vehicle token (50% discount) and commercial vehicle charge account (30% discount) programs were replaced with E-ZPass discounts of 30% for passenger vehicles and 10% for commercial vehicles. This change in the discount schedule has caused an increase in average toll collected per vehicle.
- ❖ Operating expenses for the year increased approximately \$15.9 million or 36.4%. This increase in operating expenses is primarily due to the E-ZPass program and its associated processing fees and related transponder expenses.

**Using this Annual Report**

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System's financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of a series of financial statements, along with explanatory notes to the financial statements. The Statement of Net Assets on page 13 and the Statement of Revenues, Expenses and Changes in Net Assets on page 14, report the Turnpike's net assets and changes in them. Lastly, the Statement of Cash Flows on page 15 outlines the cash inflows and outflows related to the activity of the Turnpike System.

	(Amounts in thousands)	
	2006	2005
<b><u>Assets:</u></b>		
Current Assets	\$ 64,791	\$ 67,862
Non-current Assets	13,360	10,347
Capital Assets	<u>551,211</u>	<u>534,657</u>
Total Assets	<u>629,362</u>	<u>612,866</u>
<b><u>Liabilities:</u></b>		
Current Liabilities	30,232	24,611
Non-current Liabilities	<u>278,930</u>	<u>292,627</u>
Total Liabilities	<u>309,162</u>	<u>317,238</u>
<b><u>Net Assets:</u></b>		
Invested in Capital Assets, Net of Related Debt	263,337	224,787
Restricted for Debt Repayments	42,597	41,528
Unrestricted Net Assets	<u>14,266</u>	<u>29,313</u>
Total Net Assets	<u>\$ 320,200</u>	<u>\$ 295,628</u>

### **Net Assets and Changes in Net Assets**

The Turnpike System's total net assets at June 30, 2006 were approximately \$320.2 million, a 8.3% increase from June 30, 2005. Total assets increased 2.7% to \$629.4 million. Total liabilities decreased 2.5% to \$309.2 million. The increase in net assets is attributable to \$7.8 million of income excluding grant contributions and \$16.8 million of grant contributions.

### **Liabilities**

The Turnpike System's current liabilities consist primarily of bonds payable, accrued operating expenses, and deferred revenue. Long-term liabilities consist of compensated absences and workers compensation and bonds payable. Total liabilities decreased by \$8.0 million or 2.5% in fiscal year 2006.

The increase in current liabilities of \$5.6 million in fiscal year 2006 is largely due to increases in deferred revenue, which represents cash collected for prepaid tolls as part of the E-ZPass program and accounts payable.

The table below shows current liabilities as of June 30, 2006 and June 30, 2005:

	(Amounts in thousands)	
	<u>2006</u>	<u>2005</u>
Accounts Payable	\$ 4,630	\$ 2,054
Accrued Compensated Absences and Workers Compensation	648	1,371
Bonds Payable	14,479	14,582
Deferred Revenue	5,568	1,044
Other Current Liabilities	4,907	5,560
Total Current Liabilities	<u>\$ 30,232</u>	<u>\$ 24,611</u>

### **Revenues and Expenses**

#### **Operating Revenues**

The Turnpike System's primary revenues are generated from toll collections, which include cash toll receipts, electronic toll collections, charge account payments and interest (the charge account program was discontinued in September 2005), token sales (tokens no longer sold as of September 2005), and miscellaneous income. The Central Turnpike generated gross revenue of \$33.9 million, the Blue Star Turnpike \$32.5 million and the Spaulding Turnpike finished the year with \$10.2 million in gross revenue. \$1.6 million was also generated in other income, including toll violation administrative fees, toll evasion fines, property damage, and miscellaneous revenue, for toll operating revenue of \$78.2 million for the year ended June 30, 2006.

#### ***Turnpike System Revenue and Traffic Trends***

For the year ended June 30, 2006, toll revenue was comprised of the components described in the previous paragraph. The implementation of the E-ZPass electronic toll collection program replaced tokens and the charge account program. The commercial charge program concluded on September 30, 2005. Tokens were sold through August 31, 2005 and could be redeemed until December 31, 2005.

During fiscal year 2006, passenger vehicles traveling the Turnpike System comprised 94% of the total traffic, with commercial vehicles at 6%. In fiscal year 2006 the token program for passenger vehicles, which provided a 50% toll discount, and the charge account program for commercial vehicles, which provided a 30% discount, were both replaced with the E-ZPass electronic toll collection system. The E-ZPass program offers

a 30% discount for individual accounts (passenger vehicles) and a 10% discount for business accounts. The token and commercial charge discount programs were highly popular, with approximately 60% of passenger traffic using tokens and approximately 50% of commercial traffic using the commercial charge discount program during the twelve months ended June 30, 2005. During the twelve months ended June 30, 2006, approximately 40% of total traffic used the E-ZPass program.

### **Operating Expenses**

Operating expenses for the year increased approximately \$15.9 million or 36.4%. This increase is due largely to E-ZPass processing fees and transponder expenses.

	(Amounts in thousands)	
	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 80,757	\$ 66,626
Operating Expenses	<u>59,639</u>	<u>43,724</u>
Operating Income	21,118	22,902
Non-Operating (Expenses)	<u>(13,303)</u>	<u>(13,618)</u>
Net Income Before Grant Contributions	7,815	9,284
Grant Contributions	<u>16,757</u>	<u>6,373</u>
Change in Net Assets	24,572	15,657
Net Assets – July 1	<u>295,628</u>	<u>279,971</u>
Net Assets - June 30	<u><u>\$ 320,200</u></u>	<u><u>\$ 295,628</u></u>

### **Maintenance of the Turnpike System**

The Turnpike System (other than the Spaulding Turnpike extension, for which the Turnpike System is billed for maintenance performed by District 6, Bureau of Highway Maintenance) is maintained and repaired by the Bureau of Turnpikes of the State Department of Transportation. All maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950. The Turnpike System funds Renewal and Replacement Costs from the General Reserve Account. In addition, the State's policy is to set aside \$2,000,000 of its General Reserve Account for unanticipated Renewal and Replacement Costs.

Since 1986, the Bureau of Turnpikes has resurfaced an average of approximately 10% of the total lane miles of the Turnpike System each year (with the exception of fiscal years 2005 and 2006 during which less resurfacing was performed), repaired and planned for the rehabilitation of at least one bridge each year, updated and repaired the heating systems and emergency generators at all facilities, and performed other repairs as needed. In fiscal year 2007, the Bureau will resume resurfacing sufficient lane miles annually in order to continue a full repavement cycle of the entire Turnpike System every ten years. R&R expenditures for fiscal year 2007 are anticipated to be roughly \$9.9 million.

### **Non-Operating (Expenses)**

Net Non-operating expenses decreased by 2.3%. The net decrease in fiscal year 2006 is due to the increases of \$1.3 million in investment income and \$0.1 million in miscellaneous income, which were greater than the increases in interest on bonds of \$1.0 million and amortization of bond issuance costs of \$0.1 million.

## ***Budgetary Highlights***

### **Budget and Appropriation Process**

The Legislature meets annually but adopts its budget on a biennial basis. Prior to the beginning of each biennium, all departments of the State, including the Department of Transportation, are required by law to transmit to the Commissioner of the Department of Administrative Services requests for capital expenditures, as well as estimates of their administration, operation and maintenance expenditure requirements for each fiscal year of the ensuing biennium.

As a bureau of the State of New Hampshire, Department of Transportation, the Turnpike System is included in the State of New Hampshire's biennial operating budget. The Turnpike System's official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. The Turnpike's budget consists primarily of salaries and benefits, maintenance, expenses relative to snow removal, and debt service.

The Commissioner of the Department of Administrative Services, who submits the summary to the Governor, summarizes capital expenditure requests. After holding public hearings and requesting further evaluation of selected projects by the Commissioner of the Department of Transportation, the Governor prepares a capital budget for submission to the Legislature.

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and prepares the final budget proposal, setting forth the Governor's financial program for the following two fiscal years.

Once the budget becomes law, it represents the authorization for spending levels of each State department during the next two fiscal years. If the Governor determines that additional appropriations are necessary, the Governor may submit supplemental estimates of such appropriations to the Legislature for its approval.

### ***Contacting the Turnpike's Financial Management***

This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of government, as well as other interested parties, a general overview of the Turnpike System's financial activity for fiscal year 2006 and to demonstrate the Turnpike System's accountability for the money it received from toll collections. If there are questions about this report or the need for additional information, contact the New Hampshire Department of Transportation, Bureau of Finance and Contracts, John O. Morton Building, Room 170, 7 Hazen Drive, Concord, NH 03302-0483.

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION**  
**TURNPIKE SYSTEM**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**  
*(Expressed in Thousands)*

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 27,920
Cash and Cash Equivalents - Restricted	32,605
Receivables (Net of Allowances for Uncollectibles)	2,334
Inventories	<u>1,932</u>
Total Current Assets	<u>64,791</u>

**Non-current Assets:**

Investments and Deposits-Restricted	9,992
Bond Issue Costs	3,368

**Capital Assets:**

Land and Land Improvements	106,958
Buildings	4,828
Equipment and Computer Software	31,268
Construction in Progress	71,414
Infrastructure	536,114
Less: Allowance for Depreciation	<u>(199,371)</u>
Net Capital Assets	<u>551,211</u>
Total Non-current Assets	<u>564,571</u>
Total Assets	<u>629,362</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	4,630
Accrued Payroll	676
Deferred Revenue	5,568
General Obligation Bonds Payable - Current	2,644
Revenue Bonds Payable - Restricted	11,835
Accrued Interest Payable - Restricted	4,165
Claims and Compensated Absences Payable	648
Other Liabilities	<u>66</u>
Total Current Liabilities	<u>30,232</u>

**Non-current Liabilities:**

General Obligation Bonds Payable	4,423
Revenue Bonds Payable (Net of Unamortized Discount)	272,340
Claims and Compensated Absences Payable	<u>2,167</u>
Total Non-current Liabilities	<u>278,930</u>
Total Liabilities	<u>309,162</u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	263,337
Restricted for Debt Repayments	42,597
Unrestricted Net Assets	<u>14,266</u>
Total Net Assets	<u>\$ 320,200</u>

The notes to the financial statements are an integral part of this statement.

**STATE OF NEW HAMPSHIRE - DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS  
FOR FISCAL YEAR ENDED JUNE 30, 2006**  
*(Expressed in Thousands)*

**OPERATING REVENUES – PLEDGED**

Toll Operating Revenue	\$ 78,242
Transponder Revenue	2,515
Toll Operating Revenue	<u>\$ 80,757</u>

**OPERATING EXPENSES**

Personnel Services	9,151
Payroll Benefits	4,855
Enforcement	4,590
Renewal & Replacement	4,567
Other Administration	5,861
Repairs	2,966
Indirect Costs	1,585
Heat, Light and Power	1,149
Bank Fees	1,526
Rentals	671
E-ZPass Processing Fees	3,952
Transponder Expense	5,477
Depreciation	<u>13,289</u>
Total Operating Expenses	<u>59,639</u>
Operating Income	<u>21,118</u>

**NON-OPERATING REVENUES (EXPENSES)**

Investment Income	2,432
Miscellaneous	206
Interest on Bonds	(15,584)
Amortization of Bond Issuance Costs	<u>(357)</u>
Total Non-operating Expenses	<u>(13,303)</u>
Income Before Grant Contributions	<u>7,815</u>
Grant Contributions	<u>16,757</u>
Change in Net Assets	<u>24,572</u>
<b>Net Assets - July 1</b>	<b>295,628</b>
<b>Net Assets - June 30</b>	<b><u>\$ 320,200</u></b>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF CASH FLOWS  
FOR FISCAL YEAR ENDING JUNE 30, 2006  
(Expressed in Thousands)**

**Cash Flows from Operating Activities:**

Receipts from Customers	\$ 85,687
Payments to Employees	(14,161)
Payments to Suppliers	<u>(29,570)</u>
Net Cash Provided by Operating Activities	41,956

**Cash Flows from Capital and Related Financing Activities:**

Acquisition, Disposal and Construction of Capital Assets	(31,115)
Grant Contributions	16,757
Interest Paid on Revenue and General Obligation Bonds	(15,467)
Principal Paid on Bonds	(14,327)
Other	<u>(327)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(44,479)</u>

**Cash Flows from Investing Activities:**

Proceeds from Maturities of Investments	18,796
Purchases of Investments	(5,000)
Interest and Other Income	<u>2,287</u>
Net Cash Provided by Investing Activities	<u>16,083</u>
Net Increase in Cash and Cash Equivalents	13,560
Cash and Cash Equivalents - July 1	<u>46,965</u>
Cash and Cash Equivalents – June 30	<u>\$ 60,525</u>

**Reconciliation of Operating Income to Net  
Cash Provided by Operating Activities:**

Operating Income	\$ 21,118
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	13,289
Change in Operating Assets and Liabilities:	
Increase in Receivables	962
Increase in Inventories	(999)
Increase in Accounts Payable and Other Accruals	3,061
Increase in Deferred Revenue	<u>4,525</u>
Net Cash Provided by Operating Activities	<u>\$ 41,956</u>

The notes to the financial statements are an integral part of this statement.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

### (1) Summary of Significant Accounting Policies

The accompanying financial statements of the Turnpike System have been prepared in accordance with U. S. generally accepted accounting principles (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

#### (a) *Financial Reporting Entity*

The New Hampshire Turnpike System (“the Turnpike System”) is a bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported as an enterprise fund of the State of New Hampshire (“the State”) and is included in the Comprehensive Annual Financial Report of the State. The Turnpike System itself has no component units included in its reporting entity. The Turnpike System constructs, maintains, and operates toll transaction facilities and issues revenue bonds, which are repaid from tolls and other revenues. Under the provisions of New Hampshire Revised Statutes Annotated (RSA) 237, as amended by Chapter 203, Laws of 1986, Chapter 306, Laws of 1998, and Chapter 262, Laws of 2004, the Legislature established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. RSA’s 237 and 237-A authorized the issuance of \$586 million of revenue bonds to fund these projects.

#### (b) *Measurement Focus and Basis of Accounting*

The accounting policies of the Turnpike System conform to generally accepted accounting principles as applicable to government enterprise funds and, as such, the activities of the Turnpike System are reported using the economic resources measurement focus and accrual basis of accounting. With respect to these activities, the Turnpike System has adopted applicable GASB pronouncements. The Turnpike System has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

#### (c) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### (d) *Restricted Assets*

The proceeds of the Turnpike System Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by a bond resolution.

#### (e) *Valuation of Investments*

Investments are reported at fair value. Investments consist of repurchase agreements and United States Government Obligations and Agency Obligations.

#### (f) *Accounts Receivable*

Receivables primarily consist of amounts due from the Highway Fund and outstanding E-ZPass violations. The accounts receivable balance as of June 30, 2006 is \$4.9 million less a

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

\$2.6 million allowance for doubtful accounts, which represents an estimate of uncollectible toll violation fees.

**(g) Cash Equivalents**

For the purpose of the Statements of Cash Flows, cash equivalents represent short-term investments with maturity dates within three months of the date acquired.

**(h) Capital Assets**

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets which are as follows: infrastructure – 50 years; buildings – 40 years; toll equipment – 10 years; and other equipment – 5 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Fixed assets purchased or constructed by other funding sources are recorded at cost. In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on fixed assets acquired with tax-exempt debt.

**(i) Revenue Bond Discounts/Premiums and Issuance Costs**

Revenue bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred costs.

**(j) Compensated Absences**

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The State's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the state's share of social security and retirement contributions. The current portion of the liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

**(k) Revenues and Expenses**

Revenues and expenses are classified as operating or non-operating. Operating revenues and expenses generally result from toll collections, the sale of transponders, administration, depreciation, and turnpike maintenance. All other revenues and expenses are reported as non-operating.

**(l) E-ZPass Program**

Upon enrolling in the E-ZPass program, participants establish pre-paid toll accounts. These pre-paid toll receipts are collected by Affiliated Computer Services (ACS) on behalf of the

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Turnpike System and recorded by the Turnpike System as deferred revenue until the customer completes a toll transaction. Once this occurs, revenue is recorded and the customer's account is charged. Vehicle transponders, which serve to identify the vehicles passing through the toll barriers, are purchased by the Turnpike System and shipped to customers by the contractor, ACS. The sale price customers are charged for transponders is approximately equal to the price the Turnpike System pays for them.

**(m) Inventory**

Inventories for materials and supplies were determined through a physical count of these on-site items and are valued at cost. Also included in the inventory amount are E-ZPass transponders. They are received and stored at the E-ZPass Customer Service Center, run by a contractor, ACS, located in New Jersey. The transponders are also valued at cost.

**(2) Cash, Cash Equivalents, and Investments**

**(a) Cash and Cash Equivalents**

**Primary Government** – The State pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. The Turnpike System's share of the total pooled cash and investments and restricted assets is included on the balance sheet under the captions "Cash and Cash Equivalents" and "Investments".

**Deposits** – The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits:

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

**Custodial Credit Risk:** The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

The Governor and Executive Council must approve all depositories used by the State at least annually. All commercial paper must be from issuers having A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

The State does not hold any assets for the Turnpike System that are denominated in foreign currencies. Therefore, foreign currency risk is essentially nonexistent.

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

As of June 30, 2006, the Turnpike System's bank balances were exposed to custodial credit risk as follows:

(Amounts in thousands)		
	<b>Collateralized &amp; held In State's name</b>	<b>Un-collateralized</b>
Demand Deposits	\$156	
Repurchase Agreements	14,387	
Money Market	17,706	\$19,633
US Gov't Agency Securities	8,643	
<b>Total</b>	<b>\$40,892</b>	<b>\$19,633</b>

**(b) Investments**

The following statutory requirements and Treasury Department policies have been adopted to ensure reasonable rates of return on investments while minimizing risk factors.

Approved investments are defined in statute (RSA 6:8, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2006, the Turnpike System had the following types of investments:

(Fair Value in thousands)	
<b>Investment Type</b>	
US Treasury Notes	4,992
Term Repurchase Agreements	5,000
<b>Total</b>	<b>\$9,992</b>

The table below reconciles the cash and investments in the financial statements to the footnote:

Reconciliation Between Financial Statements and Footnote				
<b>Per Statement of Net Assets</b>	<b>Unrestricted</b>	<b>Restricted</b>		
	<b>Cash and Cash Equivalents</b>	<b>Cash and Cash Equivalents</b>	<b>Investments</b>	
	<b>\$27,920</b>	<b>32,605</b>	<b>9,992</b>	<b>\$70,517</b>
<b>Per Footnote</b>				
Carrying Amount of Deposits      \$    60,525				
Investments                                 9,992				
<b>Total</b> \$    70,517				

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

### **Repurchase Agreements:**

Repurchase agreements must be executed through a New Hampshire or Massachusetts bank with assets in excess of \$500 million and has either the strongest rating as measured by Veribanc, Inc. or has a long term debt rating of AA- or better as rated by Standard and Poor's and Fitch or Aa3 or better as rated by Moody's. Repurchase agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

**Custodial Credit Risk** – The Turnpike System's repurchase agreements are all with banking institutions and therefore subject to custodial credit risk. The custodial credit risk is the risk that in the event of a bank failure, the Turnpike's deposits may not be recovered.

As of June 30, 2006, the Turnpike System's repurchase agreement bank balance was \$14,386,753.

**Debt Securities:** The Turnpike System invests in several types of debt securities including securities issued by the U.S. Treasury and Government agencies.

**Credit Risk:** The risk that the issuer will not fulfill its obligations. The state invests in grade securities which are defined as those with a grade B or higher. Obligations of the US Government or obligations backed by the US Government are not considered to have credit risk.

**Interest Rate Risk:** The risk that changes in interest rates will adversely affect the fair value of the state's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. The Turnpike System manages and monitors interest rate risk primarily through a weighted average maturity approach (WAM). The state's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and defined in the investment guidelines associated with those funds.

The Turnpike System's exposed risk at June 30, 2006 is noted below:

(Amounts in thousands)

Investment Type	Credit Risk	Interest Rate Risk
	Grade	WAM
US Treasury	\$4,992	0.08
Term Repurchase Agreements	N/A	0.55

### **(3) Restricted Assets**

Restricted assets at fair value are segregated into the following accounts as of June 30:

(Amounts in thousands) 2006

Revenue Bond Interest Debt Service Account	\$ 4,249
Revenue Bond Principal Debt Service Account	6,857
Revenue Bond Debt Service Reserve Account	26,491
Revenue Bond Insurance Reserve Account	3,000
Revenue Bond General Reserve Account	2,000
Total Restricted Assets	<u>\$ 42,597</u>

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

The “Revenue Bond Interest Debt Service Account” and “Revenue Bond Principal Debt Service Account” are used to segregate resources accumulated for debt service payments on the given maturity dates. The “Revenue Bond Debt Service Reserve Account” is used to report resources set aside to make up potential future deficiencies in the revenue bond interest debt service account and revenue bond principal debt service account. The “Revenue Bond Insurance Reserve Account” is used to report the amount that is available to insure against risks that would otherwise be covered by policies of insurance. The “Revenue Bond General Reserve Account” is used to report resources set aside to meet deficiencies in revenues, to fund asset renewals and replacements, to pay Turnpike System general obligation bonds, or for any other lawful purpose of the Turnpike System.

In addition to the above accounts, a “Revenue Bond Special Redemption Account” would be used to report any monies not otherwise required by the bond resolution to be deposited or applied, including excess proceeds after the completion of a project. A “Revenue Bond Rebate Account” also would be used to report any excess of interest earned on nonpurpose investments (as defined in section 148 of the *Internal Revenue Code of 1986*, as amended).

### **(4) Capital Assets**

Capital Asset activity for the year ended June 30, 2006, was as follows:

(Amounts in thousands)				
	<u>Beginning</u>		<u>Ending</u>	
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<b>Capital Assets not Being Depreciated:</b>				
Land and Land Improvements	\$104,588	2,483	(113)	106,958
Construction in Progress	<u>47,169</u>	<u>24,338</u>	<u>(93)</u>	<u>71,414</u>
<b>Capital Assets not Being Depreciated:</b>	<b><u>151,757</u></b>	<b><u>26,821</u></b>	<b><u>(206)</u></b>	<b><u>178,372</u></b>
<b>Other Capital Assets:</b>				
Equipment and Computer Software	28,738	4,201	(1,671)	31,268
Buildings and Building Improvements	<u>4,828</u>	<u>-</u>	<u>-</u>	<u>4,828</u>
Infrastructure	<u>536,021</u>	<u>93</u>	<u>-</u>	<u>536,114</u>
<b>Total Capital Assets</b>	<b><u>721,344</u></b>	<b><u>31,115</u></b>	<b><u>(1,877)</u></b>	<b><u>750,582</u></b>
<b>Less Accumulated Depreciation for:</b>				
Equipment and Computer Software	(15,885)	(2,439)	605	(17,719)
Buildings and Building Improvements	<u>(2,602)</u>	<u>(73)</u>	<u>-</u>	<u>(2,675)</u>
Infrastructure	<u>(168,200)</u>	<u>(10,777)</u>	<u>-</u>	<u>(178,977)</u>
<b>Total Accumulated Depreciation</b>	<b><u>(186,687)</u></b>	<b><u>(13,289)</u></b>	<b><u>605</u></b>	<b><u>(199,371)</u></b>
<b>Capital Assets, Net</b>	<b><u>\$ 534,657</u></b>	<b><u>17,826</u></b>	<b><u>(1,272)</u></b>	<b><u>551,211</u></b>

At June 30, 2006, the Turnpike System had contractual commitments for various Turnpike System improvement projects of \$12.7 million.

In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until proceeds are fully expended, with interest earned on invested proceeds over the same period. In fiscal year 2006, no interest cost was capitalized.

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

### **(5) Long-Term Debt**

#### *(a) Bonds Authorized and Un-issued*

Bonds authorized and un-issued amounted to \$471.7 million of revenue bonds at June 30, 2006. The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$1.01 billion of bonds to support this plan. The state has issued \$395 million of revenue bonds for this plan.

#### *(b) Advance Refunding*

The following is a summary of revenue bonds advance refunded and considered defeased. The proceeds from each advance refunding issue were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the System's financial statements.

<u>Date of Advance Refunding</u>	<u>Amount Outstanding at June 30, 2006</u>
January 20, 1994	\$27,000,000

#### *(c) Changes in Long-Term Liabilities*

The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims during the fiscal year:

(Amounts in thousands)

Turnpike System	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds	\$ 10,795	-	(3,728)	7,067	2,644	4,423
Revenue Bonds	294,774	-	(10,599)	284,175	11,835	272,340
Claims & Compensated Absences Payable	3,011	245	(441)	2,815	648	2,167
<b>Total</b>	<b>\$ 308,580</b>	<b>245</b>	<b>(14,768)</b>	<b>294,057</b>	<b>15,127</b>	<b>278,930</b>

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

### **(d) Debt Maturity**

With the exception of Turnpike System revenue bonds, all bonds issued by the State are general obligation bonds. These are backed by the full faith and credit of the State. Interest rates on these issues range from 2.0% to 7.2%. The annual maturities are as follows:

(Amounts in thousands)						
<b>Payable June 30,</b>	<b>General Obligation Principal</b>	<b>General Obligation Interest</b>	<b>Revenue Principal</b>	<b>Revenue Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>
2007	2,644	341	11,835	14,596	14,479	14,937
2008	1,509	204	12,130	13,926	13,639	14,130
2009	1,474	123	13,010	13,414	14,484	13,537
2010	624	45	13,310	12,620	13,934	12,665
2011	584	15	14,555	11,966	15,139	11,981
2012-2016	-	-	84,210	46,350	84,210	46,350
2017-2021	-	-	79,670	23,704	79,670	23,704
2022-2026	-	-	41,955	9,128	41,955	9,128
2027-2031	-	-	16,815	1,699	16,815	1,699
<b>Subtotal</b>	<b>6,835</b>	<b>728</b>	<b>287,490</b>	<b>147,403</b>	<b>294,325</b>	<b>148,131</b>
Un-amortized Premium Un-amortized Loss on Refunding	232	-	6,102	-	6,334	-
	-	-	(9,417)	-	(9,417)	-
<b>Total</b>	<b>\$ 7,067</b>	<b>\$ 728</b>	<b>\$ 284,175</b>	<b>\$ 147,403</b>	<b>291,242</b>	<b>148,131</b>

All revenue bonds are secured by a pledge of substantially all Turnpike System revenues and monies deposited into accounts created by the bond resolutions, subject only to the payment of operating expenses.

The bond resolutions require the Turnpike System to establish and collect tolls which are adequate at all times, with other available funds, to provide for the proper operation and maintenance of the Turnpike System and for the timely payment of the principal and interest on all bonds, notes or other evidences of indebtedness.

The resolutions further require the Turnpike System to collect sufficient tolls so that in each fiscal year net revenues will be at least equal to the greater of: (a) 120% of current year debt service on the revenue bonds, or (b) 100% of current year debt service on the revenue bonds and on all general obligation or other bonds, notes or other indebtedness, and the additional amount, if any, required to be paid from the revenue bond general reserve account to satisfy the renewal and replacement requirement for the fiscal year.

The Turnpike System is required to review the adequacy of its tolls after each fiscal year. If this review indicates that the tolls and charges are, or will be, insufficient to meet the requirements described above, then the Independent Engineer of the Turnpike System will make a study and recommend a schedule of tolls and charges which will provide revenues sufficient to comply with the requirements described above.

While the toll rate schedule was deemed to be sufficient, the Turnpike System has retained Vollmer Associates, LLP as an independent engineer to conduct a study of the toll rate schedule

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

in order to confirm its sufficiency, as well as to assist in the planning of capital spending and any associated bonding. The report was delivered in February 2007.

The resolutions require the Turnpike System to maintain certain accounts (see note 3). The Turnpike System deposits all revenues into a "Turnpike System revenue account," which are then applied first to the payment of operating expenses and then to fund accounts required by the resolutions.

The resolutions establish a renewal and replacement requirement with respect to each fiscal year. Renewal and replacement costs consist of rehabilitation, renewals, replacements, and extraordinary repairs necessary for the sound operation of the Turnpike System or to prevent loss of revenues, but not costs associated with new construction, additions or extensions.

The Turnpike System has complied with all of its material financial bond covenants as set forth in the resolutions, except for the requirement to file financial statements within 180 days of fiscal year end.

In February 1995, the Turnpike System entered into a Debt Service Forward Supply Agreement ("the Agreement") with a financial institution. The agreement provides that the financial institution is responsible for investing all funds deposited on a monthly basis by the Turnpike System into the revenue bond interest and principal debt service accounts. The financial institution made a one-time payment to the Turnpike System of \$4.7 million and is now responsible for ensuring that the required amount is available in the accounts to pay the interest and principal when due. However, all interest earnings on the monies are remitted to the financial institution.

### **(6) Employee Benefit Plans**

#### **(a) Plan Description**

The Turnpike System participates in the New Hampshire Retirement System (the Plan). The plan is a cost-sharing, multiple-employer Public Employees Retirement System (the Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

Members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of credited service. Members in service with ten or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose age and service years number 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Members may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

#### For the Fiscal Year Ended June 30, 2006

A Special Account has been established by RSA 100-A:16, II(h) for additional benefits. The Special Account is credited with all of the earnings of the Special Account assets plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301-8509.

**(b) *Funding Policy***

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2006, by statute, Group I members contributed 5% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Turnpike System's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll and paid by the employer. The Turnpike System's share represents 100% of the employer cost for all Turnpike employees. The Turnpike System's contributions to the plan for the years ended June 30, 2006, 2005, and 2004 were \$439,408, \$371,373, and \$377,128, respectively, which equals the required contributions for each year.

**(c) *Health Care Insurance for Retired Employees***

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, surgical care and pharmaceuticals. Substantially, all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group 1 employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for retiree health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying the actuarially determined insurance contributions into the fund. The Turnpike System contributions paid into the Employee Benefit Risk Management Fund totaled \$905,846 for approximately 180 retirees for fiscal year 2006. An additional source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program, which totaled \$3,272,790, for the Turnpike System retirees in fiscal year 2006.

**(7) *Grant Contributions***

The Turnpike System recognized grant contributions totaling \$16,757,101 representing the transfer of federal funds for capital assets and certain E-ZPass maintenance expenses from the Highway Fund to the Turnpike Fund.

**(8) *Risk Management***

The Turnpike System is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State primarily retains the risk for losses, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

three fiscal years. There have not been any significant changes in insurance coverage in any of the last three years.

During fiscal year 2004, the State established an Employee Benefit Risk Management Fund, an internal service fund, to account its uninsured risks of loss related to employee and retiree health benefits. Under this program, the Fund provides coverage for up to a maximum of \$0.5 million for each employee per year. The State has purchased commercial insurance for claims in excess of coverage provided, as well as, aggregate stop loss liability coverage set at 125% of the State's total expected claims per contract year.

Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claim liabilities during the fiscal years ending June 30, 2005 and 2006:

<i>(amounts in thousands)</i>		
	2006	2005
Beginning Balance	\$ 2,354	\$ 2,305
Increases	-	534
Decreases	<u>(262)</u>	<u>(485)</u>
Ending Balance	<u>\$ 2,092</u>	<u>\$ 2,354</u>
Current	450	1,195
Long-Term	1,642	1,159

### **(9) Subsequent Events**

#### *(a) Refunding Revenue Bond Issue*

In November 2005, the State issued \$39.4 million in Turnpike System Refunding Revenue Bonds with a delayed delivery date of August 2006. These bonds were used to refund \$39.4 million of revenue refunding bonds. The refunding transaction that occurred in August 2006 will result in a net present value savings of \$3.2 million over the next 10 years.

### **(10) Commitments**

#### *(a) E-ZPass Customer Service Contract*

The Turnpike System entered into a 3-year contract, with Affiliated Computer Services (ACS) of Newark, NJ, to process E-ZPass transactions, effective September 24, 2004. The 3-year contract, which does include options to extend, is not to exceed \$16.6 million. Services include:

- Opening and closing of accounts
- Maintaining the account information database
- Distribution of transponders
- Dispute resolution

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

- Receiving and posting prepaid revenue to accounts
- Debiting accounts based upon toll revenue charged to account holders
- Processing toll lane violations, including administrative violations
- Marketing

#### ***(b) Capital Improvement Program***

The ten-year capital improvement program, adopted by the Legislature in 1986, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its capacity. It is updated every two years to address changing priorities.

The current estimated cost, including expenditures to date, is approximately \$656 million through fiscal year 2017, which the State has funded and intends to fund through bond proceeds, investment earnings, available toll revenues and federal funds. As of June 30, 2006, over \$486 million had been expended on the Capital Improvement Program, of which, approximately \$360 million had been funded with bond proceeds.

Projects that are currently underway and expected to be financed with Turnpike System funds, anticipated bond proceeds, and federal funding include:

- Engineering, right-of-way acquisition and construction of Exits 11 through 16 on the Spaulding Turnpike in Rochester with two additional lanes of travel added from Exit 12 to 16 (approximately 7 new lane miles)
- Landfill cleanup in Hudson
- Engineering, right-of-way acquisition and construction of Exit 5, Granite St. interchange in Manchester
- Engineering and construction of an F.E. Everett Turnpike bridge over the Souhegan River in Merrimack
- Engineering, right-of-way acquisition and construction of US Rte. 3 bridge over the F.E. Everett Turnpike in Bedford
- Engineering, right-of-way acquisition and construction of the Turnpike associated with NH16/US 4 widening including Little Bay Bridges in Newington and Dover
- Engineering and construction for the widening of the F.E. Everett Turnpike in Merrimack and Bedford
- Toll collection equipment including Electronic Toll System with associated signing
- Deployment of Intelligent Transportation System (ITS) on the Blue Star and Spaulding Turnpikes
- Continued construction of the F.E. Everett Turnpike through the Millyard area of Manchester
- Engineering and construction of the bridge on the Blue Star Turnpike carrying I-95 over the Taylor River in North Hampton and Hampton

The Scheduling of the capital improvement program is dependent on available funding.

#### ***(c) Maintenance***

Due to uncertainties associated with the introduction of the E-ZPass program, the Turnpike System delayed certain Renewal and Replacement expenditures during fiscal years 2005 and 2006.

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

During fiscal year 2007, the independent engineer the HNTB Corporation (HNTB) conducted an infrastructure study of the Turnpike System to assist in planning for future Renewal and Replacement needs. In the report, HNTB concluded that the Turnpike System has been adequately maintained through October 2006, the date of its report. However, due to the delayed Renewal and Replacement spending and to the increased costs of materials, the level of expenditure going forward should be greater than that which had been previously planned.

For fiscal year 2007, the Turnpike System is expected to spend approximately \$9.9 million. For the fiscal years 2008-2010, taking into account the analysis conducted by the independent engineer HNTB, the anticipated budget is roughly \$8.5 million per year for Renewal and Replacement, with major expenditures for resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs. The following projects are planned for fiscal years 2007 through 2010 Renewal and Replacement Program:

- Contracted overhead sign structure replacement and sign replacement program
- Resurfacing on the Central and Eastern Turnpikes
- Rehabilitation of five bridges
- Paint ten bridges on the Blue Star Turnpike
- Toll plaza canopy re-roofing and painting
- Toll plaza emergency generator replacements
- Guard rail upgrades and replacements
- Safety rumble strips on roadway shoulders

## **OTHER INFORMATION SECTION**

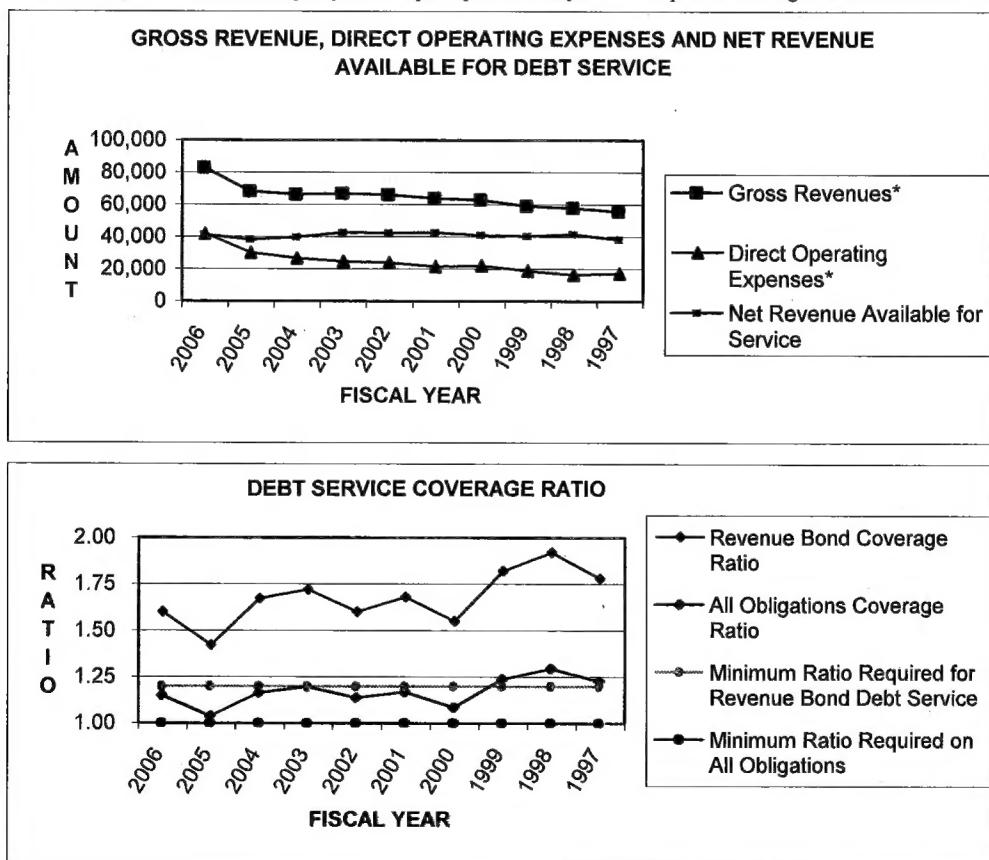
This section includes other relevant financial and operational information.

**SCHEDULE OF REVENUE BOND COVERAGE RATIOS**  
**Turnpike System Revenue Bonds**  
**For the Fiscal Years 1995 – 2006**  
(Amounts in thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available for Service	Revenue Bond Debt Service Requirements	Revenue Bond Coverage Ratio	G.O. Bond Debt Service Requirements	Renewal & Replacement	Total	All Obligations Coverage Ratio
2006#	83,054	41,784	41,270	25,831	1.60	4,219	5,871	35,921	1.15
2005	68,318	30,041	38,277	27,003	1.42	4,246	5,700	36,949	1.04
2004	66,463	26,568	39,895	23,865	1.67	4,842	5,600	34,307	1.16
2003	67,086	24,505	42,581	24,749	1.72	5,183	5,700	35,632	1.20
2002	66,218	23,877	42,341	26,452	1.60	5,415	5,365	37,232	1.14
2001	63,981	21,352	42,629	25,352	1.68	5,696	5,431	36,479	1.17
2000	63,034	22,064	40,970	26,452	1.55	5,973	5,308	37,733	1.09
1999	59,257	18,794	40,463	22,286	1.82	6,304	4,119	32,709	1.24
1998	58,033	16,352	41,681	21,678	1.92	6,519	3,990	32,187	1.29
1997	55,714	17,231	38,483	21,597	1.78	6,747	3,000	31,344	1.23

\* - As defined in the bond resolution

# - 2006 calculation of Direct Operating Expenses subtracts out the entire amount of current year depreciation expense (Turnpikes, Federal, & Highway match portions). Also, the R&R amount used in the calculation was the 2006 budgeted amount. However, prior year calculations still reflect the historical practice of subtracting only the Turnpikes portion of depreciation expense and using the actual amount of R&R expenditures.



See independent auditors' report

**(Unaudited)**

**ANNUAL TRAFFIC AND TOLL REVENUE TRENDS  
New Hampshire Turnpike System  
For the Year Ending June 30**

The table below shows annual toll transaction and revenue trends for the Turnpike System during the period beginning with fiscal year 2006 and ending with fiscal year 1995.

Fiscal Year	Annual Toll Transactions	Percent Change from Prior Year	Annual Toll Revenues*	Percent Change from Prior Year
2006	114,562,787	4.1%	\$ 76,633,131	16.2%
2005 #	110,040,272	(0.4)	65,956,309	0.3
2004 #	110,573,506	0.5	65,780,607	2.2
2003	109,978,691	2.1	64,367,301	(0.01)
2002	107,729,932	4.0	64,371,208	4.6
2001	103,583,561	4.2	61,536,675	2.3
2000	99,363,028	5.7	60,166,815	5.4
1999	94,017,638	5.7	57,080,882	5.1
1998	88,987,246	4.7	54,298,452	4.1
1997	85,020,788	4.4	52,160,088	5.7

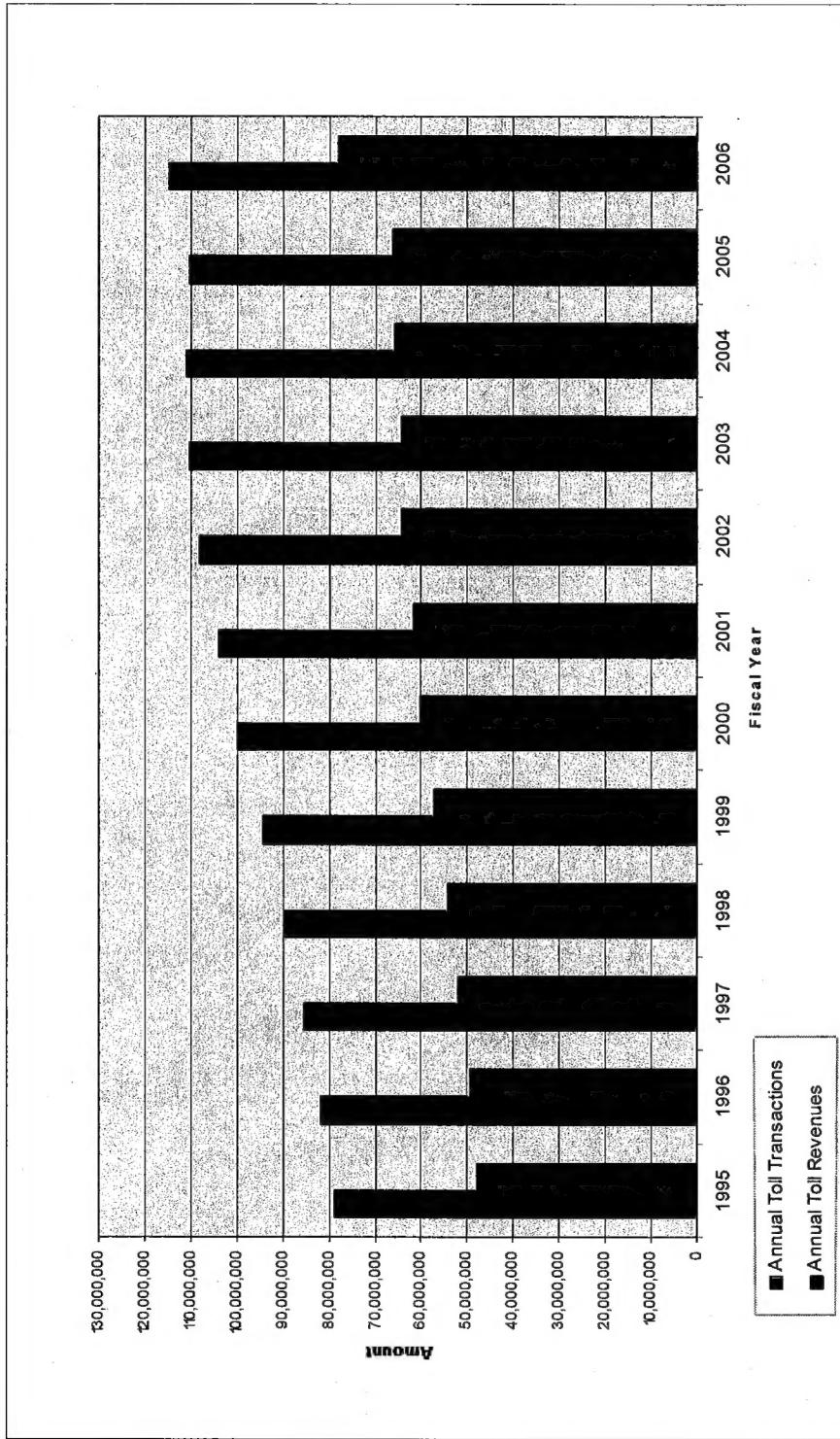
\* Excludes charge account interest and miscellaneous income.

# Hampton toll plaza: One-way tolls September-October 2003 and July-October 2004.

*See independent auditors' report*

*(Unaudited)*

ANNUAL TRAFFIC AND TOLL REVENUE TRENDS  
New Hampshire Turnpike System  
For the year ended June 30,



*See independent auditors' report*

**STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM TOLL RATE SCHEDULE  
EFFECTIVE JUNE 30, 2006**

<b>New Hampshire DOT</b>		<b>2 axles - single rear tires</b>	<b>3 axles - single rear tires</b>	<b>4 axles - single rear tires</b>	<b>5 axles - single rear tires</b>	<b>2 axles - dual rear tires</b>	<b>3 axles - dual rear tires</b>	<b>4 axles - dual rear tires</b>	<b>5 axles - dual rear tires</b>	<b>6 axles - dual rear tires</b>	<b>7 axles - dual rear tires</b>	<b>8 axles - dual rear tires</b>	<b>9 axles - dual rear tires</b>
<b>Fare</b>	<b>Type/Class</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Hooksett Main</b>	Cash Fare	\$0.75	\$1.00	\$1.25	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	
	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50
<b>Hooksett Ramp</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Bedford Main</b>	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50
<b>Bedford Road</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Exit 11</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Merrimack Industrial</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Hampton Main</b>	Cash Fare	1.00	1.25	1.50	1.75	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50
	E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95
<b>Hampton</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Dover Toll</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
<b>Rochester Toll</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05

*See independent auditors' report*